Multifiber Arrangement Renewal[1] [redacted] 25X1

A year before the current extension of the Multifiber Arrangement (MFA) expires, disagreements are already surfacing over renewal. Despite opposition of the LDC exporters, renewal of the MFA until at least the end of a new GATT round is likely because key importers want to retain the quota system. The LDCs, however, are likely to push for abolition of the MFA in any new trade round. [redacted]

The MFA

The Multifiber Arrangement sets guidelines that importing and exporting countries use to negotiate bilateral textile and clothing agreements. The MFA dates from 1974 and was renegotiated in 1977 and 1981. Except for the US agreement with Japan, all bilateral agreements under the MFA are between LDC exporters and industrialized importers. Although negotiated under GATT auspices, the MFA represents a departure from GATT rules. It allows importer countries to use quotas to control imports without having to (1) demonstrate injury to domestic producers, (2) apply the quotas on a nondiscriminatory basis, or (3) choose between compensating the restricted country or facing retaliation. [redacted]

In anticipation of its expiration on 30 June 1986, the current arrangement, "MFA III," requires the GATT Textiles Committee to meet no later than this month to consider whether to extend, modify, or discontinue the Arrangement. Negotiations on renewal would begin this fall and could continue beyond the June 1986 expiration of MFA III. The Textiles Committee meeting on 23 July may be limited to an exchange of views because a working party report due this month may not be ready until November. [redacted]

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Early LDC Posturing

In recent years, developing countries have become increasingly critical of the MFA. They believe its original goals—orderly expansion of trade, industrial country adjustment, and progressive reduction of trade barriers—have been disregarded by the industrial countries. They complain that industrial country producers, unrestrained by quotas, have expanded exports at the expense of developing countries. The United States has borne the brunt of Third World criticism, despite enormous increases in US textile and clothing imports from developing countries (19-percent growth in 1983; 58 percent in 1984). US rules-of-origin changes and countervailing duty actions have been attacked for being outside the safeguards measures contained in bilateral textiles agreements. [redacted] 25X1

Although diplomatic reporting indicates that most exporting countries doubt that the MFA can be abolished in the near term, developing country exporters reaffirmed their desire to end the MFA at meetings in Karachi in July 1984 and Mexico City in April 1985. We believe this hardline stance is attractive to LDC exporters because:

- It papers over differences among them, which the industrialized countries have used to play off one group of exporters against another. 25X1
- It allows them to start renewal talks from a position of strength.

As the June 1986 deadline approaches, however, we believe individual countries will behave as in the past and abandon the common exporter position to privately seek the best deal for themselves from importers. [redacted] 25X1

The LDC exporters' common, hardline position has enabled them so far to limit progress in the working party. According to diplomatic reporting, the devel-

[1] This article is one of an occasional series examining various issues and trends that will affect the upcoming new GATT round. [redacted] 25X1

oping countries have tried to turn the working party into a negotiating forum that would recommend full application of GATT rules. The industrial countries want the working party to examine all options—including liberalization under an MFA framework—without endorsing any. The industrialized countries have also tried to direct working party attention to developing country barriers to textile and clothing trade. [redacted]

Exporters Motives

With the MFA in force for over a decade, many exporting countries have adapted to it and might actually be hurt by a return to GATT rules. According to diplomatic reporting, some small- and medium-sized exporting countries find textile and clothing quotas helpful because they guarantee shares of industrial country markets and protect them against major exporters. MFA quotas also provide a pretext for extensive government control of the textile and clothing sector, and many officials receive personal gain from quota distribution. Many of these exporters, particularly the Latin American or ASEAN countries, favor renegotiation of the MFA with higher quotas awarded to themselves. According to diplomatic reporting, their opening positions will, however, still call for ending the MFA and returning to GATT rules. [redacted]

The large exporters, Hong Kong, South Korea, Taiwan, and China, are least likely to receive much growth in quotas from a new MFA and appear to have the most to gain from ending the MFA system. We believe, however, they fear that in a hectic post-MFA period that they would be the major targets of developed country protectionism. Consequently, the major exporters will probably accept some form of MFA renewal as the least risky alternative, while continuing to work for gradual phaseout of the MFA. [redacted]

Industrial Country Importers

The European Community will probably wait until just before this month's Textile Committee meeting to agree on a formal position on MFA renewal. [redacted] 25X1 According to diplomatic reporting, the United Kingdom, West Germany, The Netherlands, and Denmark support liberalization or abandonment of the MFA, but France and Italy are committed to a restrictive MFA. We believe the EC stance will come out close to that of France, with the northern tier countries probably willing to wait until a new GATT round to discuss liberalization. [redacted] 25X1 25X1

Japanese and Canadian positions on MFA renewal are still being developed. Japan has never been a major participant in the MFA system. Its bilateral agreements with exporters are managed informally, so that officially Japan maintains no quotas under the MFA. [redacted] 25X1

MFA and the New GATT Trade Round

Although a new GATT round will not be directly linked to MFA renewal talks, developing country members of GATT are already placing liberalization of world textile trade high on their list of objectives. Knowledge that textiles and clothing could be a significant part of a new round's final package may prompt MFA participants to defer to the broader-based talks and extend the MFA only until the end of the GATT round. Talks on launching a new round will probably begin in September, but the round itself may be barely under way by the June 1986 MFA deadline. [redacted] 25X1 25X1

We believe that it may be unrealistic to expect the developing countries to begin to dismantle their own trade barriers if a huge exception to GATT rules, the MFA, is allowed to continue. Industrialized countries, for their part, are likely to want to retain a restrictive MFA during a new round so 25X1 that it can be used as a bargaining chip. They may also offer to reduce some of their textile and clothing barriers in order to obtain import barrier liberalizations from developing countries. Developing countries, however, would probably resist trading import barrier cuts for MFA phaseout, claiming that they should not have to pay simply to return textiles and clothing trade to GATT rules. [redacted]

Outlook

We believe that there is a better than even chance that MFA renewal talks will follow past patterns: little progress until the deadline nears, but eventual agreement on a renewal that is more advantageous to small- and medium-sized exporters. A possible scenario includes a 1986 decision to extend the MFA until the end of a new GATT round, at which time new agreements on a post-MFA textiles and clothing regime would begin to phase in. Clearly, renewing the MFA in 1986, even on a restrictive basis, need not be inconsistent with doing away with it during a GATT round. [redacted]

Whatever the outcome, the industrial countries will come under intense pressure to allow LDCs—many of them experiencing debt problems, unemployment, and slow growth—to earn much more from textile and clothing exports. Liberalizations in a new round plus a possible phaseout of the MFA in the 1990s would increase even further the import competition faced by developed country textile and clothing producers, particularly those which have not substantially reduced costs through technological improvements. [redacted]

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